Management Report

Significant developments

On 28 February 2020, Cembra Business, a business line of Cembra Money Bank, launched a new online financing product for SMEs. The business loan is tailored to the needs of small Swiss companies, who can now apply for loans directly online or through selected partners.

On 3 March 2020, we announced that the Apple Pay feature had been added to our credit card portfolio, further expanding our range of mobile payment solutions.

On 16 April 2020, we held our seventh Annual General Meeting of Shareholders as a SIX-listed company in Zurich. Due to federal rules related to Covid-19 at the time, shareholders did not attend the meeting in person. All agenda items were approved, including a dividend payment of CHF 3.75 per share. All existing members of the Board of Directors were re-elected for a further one-year term of office. Thomas Buess was newly elected to the Board of Directors.

On 27 April 2020, due to Covid-19 we provided an update on the first quarter of 2020 outside of the regular reporting cycle. The Group delivered a strong business performance, with net revenues increasing by 19% year on year (organic growth of 1%) to CHF 128.2 million. We confirmed our mid-term targets, but suspended detailed guidance for 2020 due to the uncertainties about the impact of Covid-19 on the Swiss economy and related government measures.

On 19 October 2020, we signed a cooperation agreement with IKEA Switzerland to launch credit cards and other financing products. The new partnership will enable us to further expand our position in the credit card business. As part of the partnership, Swissbilling, a subsidiary of Cembra, will offer its invoice financing solution for online and in-store sales.

On 22 October 2020, Cembra announced that after more than eleven successful years as CEO, Robert Oudmayer would step down in the course of 2021. As further announced on 22 October 2020 and on 20 January 2021, Prof. Dr Peter Athanas and Katrina Machin will not stand for re-election at the Annual General Meeting in 2021. The Board of Directors will propose Susanne Klöss-Braekler and Martin Blessing for election as new members to the Board of Directors at the Annual General Meeting in April 2021.

In 2020, a number of leading ESG rating agencies upgraded their ratings as a result of Cembra's solid sustainability performance. Cembra was also included in the SXI Switzerland Sustainability 25 Index and the 2021 Bloomberg Gender Equality Index and received a "We Pay Fair" recognition based on Swiss federal standards.

In January 2021, Cembra announced that Holger Laubenthal will succeed Robert Oudmayer as new CEO of Cembra, effective 1 March 2021.

Macroeconomic environment

We operate exclusively in Switzerland and our financial position and revenues are strongly influenced by domestic macroeconomic factors, especially gross domestic product, the unemployment rate and interest rates. We have very limited exposure to foreign currencies.

Swiss gross domestic product

Growth in Switzerland's gross domestic product (GDP) is an important indicator for the Group. Swiss GDP declined by 2.9% in 2020, after increasing by 0.9% in 2019. Consumer spending fell by 4.4% (2019: +1.0%).

Interest rates

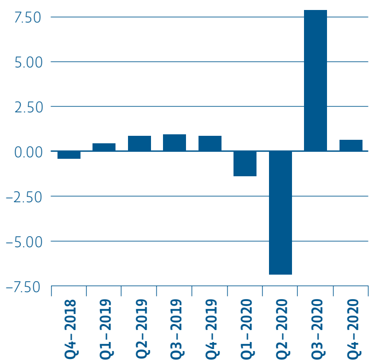
Interest rates are a key indicator for the Group's funding. Swiss-franc interest rates continued to decline up to the lockdown in March 2020 because of Covid-19 and market participants' expectations of rate cuts. Uncertainty about the impact of the first wave of the pandemic caused the Swiss-franc interest rate curve to rise sharply and credit spreads to widen. After several interventions and rate cuts by central banks, the interest rate curve stabilised in negative territory, and credit spreads narrowed again. The second wave of the pandemic did not have a major impact on the interest rate curve. At the end of the reporting period, Swiss interest rates were slightly lower than at the beginning of the year. The Swiss National Bank kept the interest rate on sight deposits at –0.75%.

Unemployment rate

The unemployment rate is an important indicator for the credit risk profile of the Group's customers. As a result of the pandemic's economic impact, the unemployment rate in Switzerland increased to 3.5% in December 2020 (December 2019: 2.5%), and the average unemployment rate in 2020 was 3.1% (2019: 2.3%).

GDP Switzerland

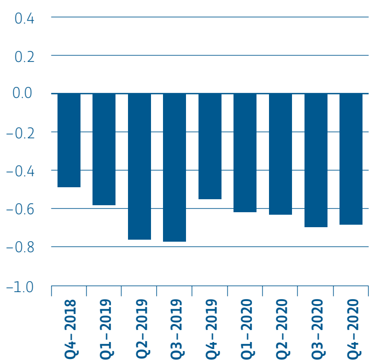
Change versus previous quarter (in %)



Source: SECO

CHF 3-year swap rate

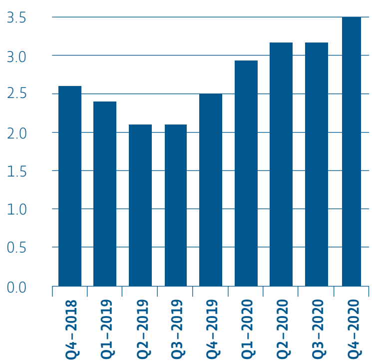
in %



Source: Bloomberg

Unemployment rate in Switzerland

in %



Source: SECO

Product markets

Consumer loan market

In 2020, the Swiss consumer loan market contracted for the first time in four years. According to the Swiss central credit information bureau (ZEK), the Swiss consumer loan market decreased by 3%, from CHF 8,113 million in outstanding assets in 2019 to CHF 7,854 million in 2020. The number of loan contracts outstanding decreased by 3% to 360,000 in 2020, from 372,000 in 2019. In a competitive environment, the Group had an estimated market share of approximately 43% of outstanding consumer loans (2019: 44%).

Auto market

The Swiss auto market significantly contracted in 2020 due to the effects of Covid-19 with its impact on the distribution networks and the reduced availability of new cars. According to statistics from auto-schweiz (the association of official Swiss car importers), about 238,000 new cars were registered in 2020, a decline of 24% versus 2019. A total of 831,000 used cars were sold in Switzerland 2020 according to Eurotax Schweiz (an independent provider of automotive market data); this represents a 2% decline compared with 2019. The Group estimated its auto leasing market share to be about 21% of total leasing volumes outstanding (2019: 23%).

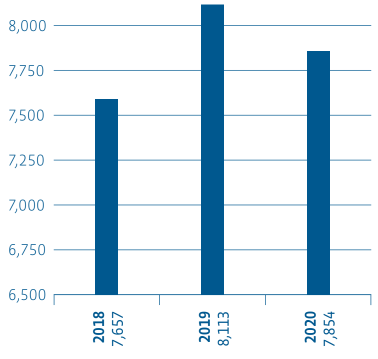
Credit card market

The growth trend continued in the credit card market in 2020. Based on Swiss National Bank statistics, the number of credit cards issued in Switzerland grew by approximately 11% to about 8.0 million. Contactless transactions (NFC) gained further momentum, making up around 47% (2019: 38%) of all domestic transactions in 2020. The number of transactions decreased by 3% from 529.6 million in 2019 to 514.2 million in 2020, as a result of Covid-19-related restrictions. Overall, credit card transaction volumes decreased by 15% in 2020 to CHF 39.5 billion.

The Group's credit cards business continued to outgrow the market, with the number of cards increasing by about 46,000, or 5%, to around 1,030,000 compared with year-end 2019. The Group's market share, based on the number of credit cards in circulation, declined to 13% (2019: 14%) due to new entrants in the market.

Swiss consumer loan market

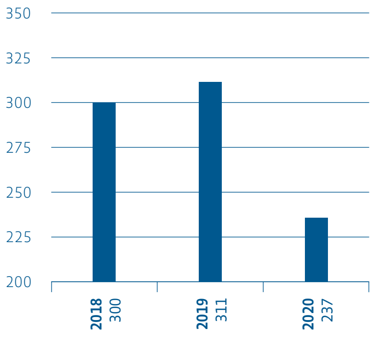
CHF in millions



Source: ZEK

New car registrations in Switzerland

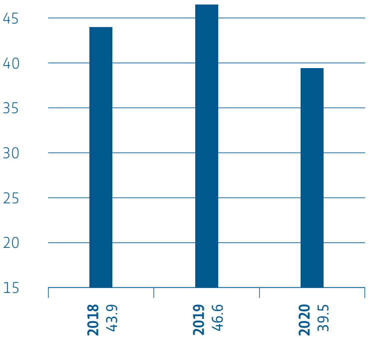
in 1,000



Source: auto-schweiz

Transaction volume Swiss credit cards

CHF in billions



Source: SNB

Balance sheet analysis

At 31 December (CHF in millions)	2020	2019	Change	as %
Assets				
Cash and cash equivalents	**599**	543	56	10
Net financing receivables	**6,293**	6,586	– 293	– 4
Personal loans	**2,408**	2,625	– 217	– 8
Auto leases and loans	**2,853**	2,915	– 62	– 2
Credit cards	**970**	1,029	– 59	– 6
Other	**62**	17	45	n/a
Investment securities	**0**	6	– 6	– 100
Other assets	**353**	351	2	0
Total assets	**7,244**	**7,485**	**– 241**	**– 3**
Liabilities and equity				
Deposits and debt	**5,840**	6,134	– 294	– 5
Deposits	**3,275**	3,495	– 221	– 6
Debt	**2,565**	2,639	– 73	– 3
Other liabilities	**278**	260	17	7
Total liabilities	**6,117**	**6,395**	**– 277**	**– 4**
Shareholders' equity	**1,127**	1,091	36	3
Total liabilities and shareholders' equity	**7,244**	**7,485**	**– 241**	**– 3**

On 2 September 2019, Cembra completed the acquisition of cashgate, which has been consolidated since that date.

Net financing receivables amounted to CHF 6,293 million, a decrease of 4%, or CHF 293 million, compared with year-end 2019. The decrease was mainly due to the effects of Covid-19 in Switzerland.

At the end of 2020, the Group's personal loans accounted for 38% (2019: 40%) of net financing receivables, auto leases and loans made up 45% (2019: 44%), and the credit cards business accounted for 15% (2019: 16%).

As at 31 December 2020, net financing receivables from personal loans amounted to CHF 2,408 million, 8% lower than at year-end 2019. This decline was predominantly caused by lower demand during the Covid-19 pandemic and related measures taken by the Group. Auto leases and loans declined by 2% to CHF 2,853 million, down from CHF 2,915 million at the end of 2019. Credit cards fell by 6%, from CHF 1,029 million to CHF 970 million. Other net financing receivables increased to CHF 62 million (2019: CHF 17 million) and included the growing Swissbilling business.

Funding

The Group kept funding diversified in 2020. The deposit base decreased from CHF 3,495 million at 31 December 2019 to CHF 3,275 million at 31 December 2020, primarily due to a 10% decline in the institutional deposit base. The Group's non-deposit debt decreased by 3%, from CHF 2,639 million at 31 December 2019 to CHF 2,565 million at 31 December 2020. In March 2020, the Group issued AAA-rated asset-backed securities amounting to CHF 250 million.

Equity
Total shareholders' equity increased by CHF 36 million, from CHF 1,091 million to CHF 1,127 million at year-end 2020. The increase was mainly driven by net income of CHF 152.9 million. The increase was partially offset by the CHF 110 million dividend for the 2019 financial year, which was paid in April 2020.

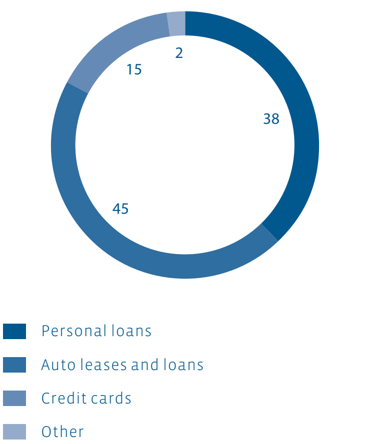
Capital position

At 31 December (CHF in millions)	2020	2019	Change	as %
Risk-weighted assets	**5,662**	5,908	– 246	– 4
Tier 1 capital	**1,000**	962	38	4
Tier 1 ratio	**17.7 %**	16.3 %		

Risk-weighted assets decreased by 4% to CHF 5,662 million at 31 December 2020, compared with CHF 5,908 million at 31 December 2019. This decrease was largely in line with the trend in net financing receivables. Tier 1 capital increased by CHF 38 million, or 4%, to CHF 1,000 million, mainly as a result of the statutory net income generated in 2020, adjusted for the expected dividend payment. This resulted in a Tier 1 capital ratio of 17.7% at 31 December 2020, which is significantly above the regulatory requirement of 11.2%.

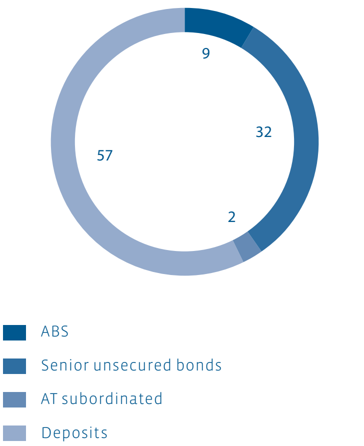
Net financing receivables

in %



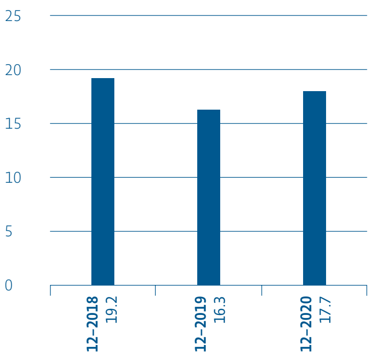
Funding structure

in %



Tier 1 capital ratio

in %

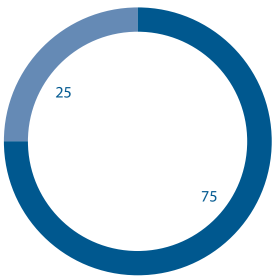


Profit and loss analysis

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Interest income	**401.8**	359.8	42.0	12
Interest expense	**– 26.9**	– 27.8	– 0.9	– 3
Net interest income	**375.0**	**332.0**	**43.0**	**13**
Commission and fee income	**122.3**	147.7	– 25.4	– 17
Net revenues	**497.2**	**479.7**	**17.5**	**4**
Provision for losses on financing receivables	**– 56.4**	**– 45.1**	**11.3**	**25**
Compensation and benefits	**– 129.5**	– 120.5	9.1	8
General and administrative expenses	**– 117.9**	– 111.3	6.6	6
Total operating expenses	**– 247.4**	**– 231.8**	**15.6**	**7**
Income before income taxes	**193.4**	**202.9**	**– 9.5**	**– 5**
Income tax expense	**– 40.5**	– 43.7	– 3.2	– 7
Net income	**152.9**	**159.2**	**– 6.3**	**– 4**
Other comprehensive income / (loss)	**– 5.2**	– 2.1	– 3.1	– 150
Comprehensive income	**147.7**	**157.1**	**– 9.4**	**– 6**

Net revenues

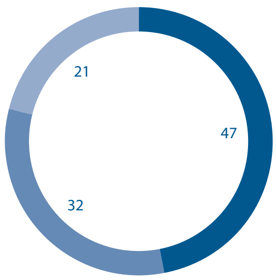
as %



Net interest income
Commission and fee income

Interest income

as % (excluding “Other”)



Personal loans
Auto leases and loans
Credit cards

Interest income

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Personal loans	**190.7**	172.6	18.0	10
Auto leases and loans	**129.4**	110.6	18.8	17
Credit cards	**83.6**	79.4	4.2	5
Other	**– 1.9**	– 2.9	1.0	– 36
Total	**401.8**	**359.8**	**42.0**	**12**

Overall, the contribution of personal loans to interest income (excluding other interest income) decreased to 47%, from 48% in 2019. The relative weight of auto leases and loans increased to 32%, from 30%, whilst the weight of credit cards fell to 21%, from 22% in the year-earlier period.

Total interest income increased by 12%, or CHF 42.0 million, to CHF 401.8 million in 2020.

Interest income from personal loans increased by CHF 18.0 million, or 10%, to CHF 190.7 million due to the consolidation of cashgate. Interest income from personal loans was also impacted by lower consumer spending in Switzerland in 2020. The yield declined from 7.5% to 7.4% over the reporting period. Interest income from auto leases and loans increased by CHF 18.8 million, or 17%, from CHF 110.6 million to CHF 129.4 million. The yield remained stable at 4.5% (2019: 4.5%). Interest income from credit cards rose slightly, up CHF 4.2 million, or 5%, to CHF 83.6 million in 2020. The yield stood at 8.3% (2019: 8.0%). Other interest income included CHF 1.9 million in expenses from the negative interest rate on cash held with the Swiss National Bank and other institutions.

Cost of funds

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Interest expense on ABS	**1.5**	1.9	– 0.4	– 21
Interest expense on deposits	**13.1**	13.1	0.0	0
Interest expense on debt	**12.3**	12.8	– 0.6	– 5
Total	**26.9**	**27.8**	**– 0.9**	**– 3**

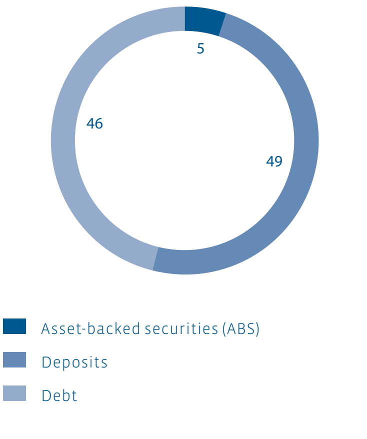
Overall, interest expense decreased by CHF 0.9 million, or 3%, to CHF 26.9 million in 2020. Interest expense on auto lease asset-backed securities (ABS) decreased by 21% to CHF 1.5 million. Interest expense on deposits remained flat at CHF 13.1 million. Interest expense on debt decreased by 5% following the full repayment of the bridge loan for the cashgate acquisition in 2019.

Commission and fee income

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Insurance	**24.0**	21.6	2.3	11
Credit cards	**71.4**	101.1	– 29.7	– 29
Loans and leases	**15.7**	14.5	1.2	8
Other	**11.2**	10.4	0.8	8
Total	**122.3**	**147.7**	**– 25.4**	**– 17**

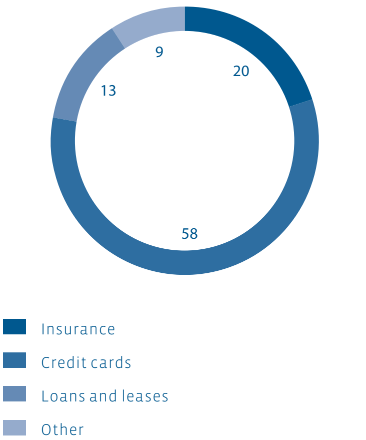
Cost of funds

as %



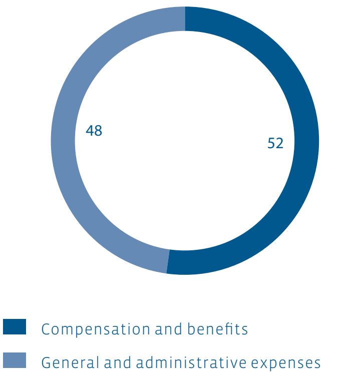
Commission and fee income

as %



Operating expenses

as %



Commission and fee income decreased by CHF 25.4 million, or 17%, from CHF 147.7 million to CHF 122.3 million. The decrease was mainly related to a 29%, or CHF 29.7 million, decline in fee income on credit cards as a result of the Covid-19-related decrease in credit card use in 2020.

Insurance income, which consists mainly of revenues from payment protection insurance products, increased by CHF 2.3 million, or 11%, to CHF 24.0 million due to the effect of the acquisition. The 8% increase in fees from loans and leases, to CHF 15.7 million, was also mainly attributable to the aquisition. Other fees increased by CHF 0.8 million to CHF 11.2 million, driven mainly by fee income from Swissbilling.

Provision for losses on financing receivables

For the years ended 31 December (CHF in millions)	**2020**	2019	Change	as %
Provision for losses on personal loans	**32.2**	24.4	7.8	32
Provision for losses on auto leases and loans	**14.9**	10.4	4.6	44
Provision for losses on credit cards	**7.6**	9.1	– 1.5	– 16
Provision for losses on other	**1.7**	1.2	0.4	34
Total	**56.4**	**45.1**	**11.3**	**25**

The provision for losses on financing receivables increased by CHF 11.3 million, or 25%, to CHF 56.4 million in 2020, compared with CHF 45.1 million in 2019. This rise was predominantly driven by increased financing receivables resulting from the acquisition of cashgate in the second half of 2019. The provision for losses on personal loans increased by CHF 7.8 million to CHF 32.2 million, and the provision for losses on auto leases and loans rose by CHF 4.6 million to CHF 14.9 million. The provision for losses on cards decreased by CHF 1.5 million to CHF 7.6 million, reflecting lower spend as a result of the Covid-19 pandemic.

The Group's loss rate for the year 2020 was 0.9% of financing receivables and hence in line with the prior year's performance. Delinquency metrics of 30 days past due stood at 1.8% at 31 December 2020, a stable figure compared with prior years. Non-performing loans accounted for 0.7% of total loans (2019: 0.6%).

Compensation and benefits

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Compensation and benefits	**129.5**	**120.5**	**9.1**	**8**

Compensation and benefit expenses increased by CHF 9.0 million, or 8%, to CHF 129.5 million. The increase was mainly attributable to a higher headcount following the acquisition of cashgate in September 2019.

At 31 December 2020, the number of employees (FTEs) stood at 928, a decline of 35 FTEs, from 963 at year-end 2019. The Group's average number of FTE employees was 946 in 2020, compared with 873 in the prior-year period. The average cost per FTE of TCHF 137 in 2020 decreased compared with TCHF 138 in 2019 due to the effect of the acquisition.

General and administrative expenses

For the years ended 31 December (CHF in millions)	2020	2019	Change	as %
Professional services	**17.8**	22.4	– 4.6	– 20
Marketing	**10.9**	11.8	– 0.9	– 8
Collection fees	**11.7**	10.9	0.8	7
Postage and stationery	**10.1**	11.2	– 1.1	– 10
Rental expense under operating leases	**7.9**	7.2	0.7	10
Information technology	**39.1**	31.4	7.7	25
Depreciation and amortisation	**26.5**	19.5	7.1	36
Other	**– 6.1**	– 2.9	– 3.2	108
Total	**117.9**	**111.3**	**6.6**	**6**

General and administrative expenses increased by CHF 6.6 million, or 6%, from CHF 111.3 million to CHF 117.9 million in 2020. Costs from professional services decreased by 20% to CHF 17.8 million, mainly due to higher acquisition-related costs in the previous reporting period. Marketing expenses were down 8%, or CHF 0.9 million, due to lower marketing expenses during the lockdowns. This was partly offset by additional costs related to the cashgate online brand and the launch of Cembra Business.

Collection fees increased by 7% to CHF 11.7 million due to business growth in Swissbilling and the acquisition. Costs for postage and stationery decreased by 10% to CHF 10.1 million as a result of the lower growth of credit cards issued. Rental expenses increased to CHF 7.9 million due to additional costs relating to branch closures. Information technology costs of CHF 39.1 million were 25% higher; this increase was due to the cashgate acquisition and strategic investments in digital platforms. Depreciation and amortisation was 36% higher, mainly as a result of the amortisation of intangible assets from the cashgate acquisition, whilst higher net amortisation of core digital investments was offset by previous investments reaching end of life. Other costs fell by CHF 3.2 million, primarily driven by CHF 1.8 million lower pension costs as well as lower costs for travel and entertainment.

The cost/income ratio was 49.8% in 2020, compared with 48.3% in 2019. The increase was predominantly driven by costs relating to the acquisition and consolidation of cashgate, and the impact of Covid-19 on revenues.

Income tax expense
The Group's income tax expense declined by CHF 3.2 million, or 7%, to CHF 40.5 million in 2020. This decline was slightly above the decrease in income before taxes, due to one-off adjustments to tax accruals from prior years. The effective tax rate was 20.9%, which was in line with the statutory tax rate resulting from the combination of federal, cantonal and communal corporate taxes in Switzerland.

The numbers published in the tables above are in Swiss francs and rounded; therefore rounding differences may occur.

Strategy

Our strategy focuses on making Cembra the provider of choice for those looking for financial solutions in Switzerland. We aim to achieve this through our three strategic goals, which are to defend the core business, build for the future and increase in size through external growth.

Defend the core business
Here, our focus is on maintaining our leading market position in personal loans and auto financing by adapting to the evolving distribution environment and expanding our B2B network of partners. We seek to provide customers with a seamless experience. We also keep pace with wider market trends by rolling out new product offerings.

Build for the future
We aim to prepare our business for upcoming challenges, with a focus on people, systems, processes and ultimately how we execute corporate initiatives. One of our key objectives is to transform Cembra into a more customer-centric organisation, supported by lean processes and a competitive cost base, which we will achieve by digitising our value chain. We are also focused on developing our employees and improving their work environment.

Increase in size through external growth
We are looking to bring in new business lines and expand our customer base through acquisitions and partnerships. This with a focus on our key strengths, capabilities, and in line with our ambition of being the provider of choice for financial solutions in Switzerland.

Outlook

Assuming the Swiss economy recovers in 2021, Cembra currently expects to deliver a resilient business performance in 2021, with revenues expected to recover in line with the economic development. Cembra expects a solid loss performance for 2021 and confirms its targets for the mid-term.

The Group's mid-term financial targets are as follows:
- Average return on shareholders' equity (ROE) of at least 15%;
- Consolidated Tier-1 capital ratio of at least 17% in the mid term; and
- Ordinary dividend payout of between 60% and 70% of net income.